

Message Text

SECRET

PAGE 01 STATE 295791 TOSEC 240265

15

ORIGIN SS-15

INFO OCT-01 ISO-00 SSO-00 CCO-00 NSCE-00 /016 R

666011

DRAFTED BY: S/S-O:PKJOHNSON

APPROVED BY: S/S-O:PKJOHNSON

----- 052586

P 161121Z DEC 75 ZFF4

FM SECSTATE WASHDC

TO USDEL SECRETARY PRIORITY

S E C R E T STATE 295791 TOSEC 240265

EXDIS

FOLLOWING TEL SENT ACTION SECSTATE FROM TEHRAN DEC 16:

QUOTE S E C R E T TEHRAN 12152

EXDIS

DEPARTMENT PLEASE PASS TO SECRETARY AND SECDEF

E.O. 11652: GDS

TAGS: MASS, IR

SUBJECT: SHARP GOI REACTION TO RISING COSTS OF DEFENSE
EQUIPMENT

REF: TEHRAN 12136(DTG 151700Z DEC 75)

1. IN MEETING DECEMBER 16, GENERAL TOUFANIAN COVERED MUCH
THE SAME GROUND AS IN HIS CONVERSATION WITH DEFREP PREVIOUS
EVENING. ADDITIONAL DETAILS FOLLOW. MAIN NEW POINT IS
INTRODUCTION OF CONTINGENCY ELEMENT, I.E., IF OIL REVENUES
REMAIN LOW, PROJECTS LISTED REFTEL WILL NOT GO FORWARD.

2. TOUFANIAN SAID IT SEEMED EVIDENT THAT STATE AND DOD
BELIEVED MINISTRY OF WAR HAD UNLIMITED FUNDS AND WAS NOT
SUBJECT TO BUDGETARY CONSTRAINTS. THIS WAS NOT TRUE.

SECRET

SECRET

PAGE 02 STATE 295791 TOSEC 240265

\$3 BILLION, WHICH HE HAD ALLOCATED TO U.S. PURCHASES, WOULD

ALSO HAVE TO COVER CERTAIN PAYMENTS TO OTHER COUNTRIES. SINCE BEGINNING OF IRANIAN FISCAL YEAR IN MARCH, HE HAD AGREED TO NUMBER OF INCREASED CHARGES(E.G. AIR TRANSPORTATION, AMMUNITION AND SPARE PARTS) WITH EXPECTATION THAT USG WOULD EVENTUALLY BRING COSTS UNDER CONTROL. HOWEVER, DURING PAST 60 DAYS IRAN HAD RECEIVED NOTIFICATION OF MASSIVE \$1 BILLION ESCALATION IN SEVERAL CONTRACT CHARGES.

3. WHEN TOUFANIAN REPORTED TO SHAH ON DECEMBER 15 THAT HE HAD INSUFFICIENT FUNDS TO COVER ALL PLANNED FMS PROGRAMS, SHAH INDICATED THAT IRANIAN PROJECTS WOULD HAVE TO BE CUT BACK IF OIL REVENUES REMAINED LOWER THAN ANTICIPATED. TOUFANIAN SAID AMERICAN COMPANIES WERE NOT EXPORTING SUFFICIENT OIL FROM IRAN TO PRODUCE REVENUES GOI REQUIRED FOR DEVELOPMENT. IF RPT IF OIL REVENUES DID NOT INCREASE, IRAN WOULD HAVE TO CANCEL OR SCALE DOWN PROGRAMS LISTED REFTEL. TOUFANIAN SUGGESTED THAT PERHAPS USG COULD PREVAIL UPON OIL COMPANIES TO INCREASE EXPORTS FROM IRAN.

4. ALMOST IN AN ASIDE, TOUFANIAN MENTIONED THAT A SOVIET ECONOMIC COMMISSION WOULD BE VISITING IRAN SHORTLY AND THERE WAS SOME PROSPECT THAT "DOOR WOULD BE OPEN" ON DEFENSE SALES. HE DID NOT DWELL ON THIS POINT BUT IN A VERY PERSIAN WASY OBVIOUSLY WISHED US TO ADD IT TO OUR CALCULATIONS.

5. TOURANIAN WAS CLEARLY APPEALING FOR USG HELP IN BRINGING COSTS UNDER CONTROL OR INCREASING OIL REVENUES GOI FEELS THERE IS STRONG MUTUALITY OF INTEREST IN IRANIAN PARTICIPATION IN ALL PROGRAMS NOW SUBJECT TO CANCELLATION. IRANIANS OBVIOUSLY FEEL, FOR EXAMPLE, THAT THEIR PURCHASES OF F-16 AND AWACS AND CONTRIBUTION TO DEVELOPMENT OF AMST WILL BENEFIT U.S. AS WELL AS IRAN. SHAH IS COUNTING ON USG TO BRING RELIEF BY PUTTING SOME KIND OF LID ON DEFENSE COST INFLATION OR HELPING IRAN TO EXPAND OIL EXPORTS.

6. FOREIGN MINISTER KHALATBARY CALLED AMBASSADOR IN MORNING OF DECEMBER 16 TO MAKE MUCH THE SAME POINT. HE SAID THAT
SECRET

SECRET

PAGE 03 STATE 295791 TOSEC 240265

U.S. COMPANY OIL LIFTINGS FROM IRAN WERE NOW DOWN TO ABOUT 4 MILLION PLUS BARRELS PER DAY. AT THIS RATE OF LIFTINGS, IRAN'S OIL REVENUE WOULD BE REDUCED BY \$4 BILLION PER CALENDAR YEAR. IF U.S. COMPANIES DO NOT CHANGE THEIR LIFTING PATTERNS, THEN IRAN OBVIOUSLY WILL HAVE TO CUT BACK ON MILITARY AND CIVILIAN PURCHASES FROM THE U.S. HE ASKED SPECIFICALLY WHETHER THE U.S. GOVERNMENT MIGHT NOT CONSIDER INTERVENING WITH U.S. OIL COMPANIES IN THIS

MATER.

7. COMMENT: IT IS NOT ENTIRELY CLEAR WHAT KHALATBARY HAD IN MIND WHEN HE CITED OIL LIFTING AND REVENUE FIGURES. FOR EXAMPLE, AVERAGE OIL LIFTING IN 1975 ARE RUNNING AT ABOUT 4.9 MILLION BARRELS PER DAY. IF THIS AVERAGE IS MAINTAINED DURING THE NEXT YEAR, WE ESTIMATE THAT REVENUE IN THE NEXT IRANIAN YEAR WILL BE ABOUT \$19.6 BILLION WHICH IS ABOUT \$900 MILLION LESS THAN THE CENTRAL BANK'S ESTIMATE FOR IRANIAN OIL REVENUE IN THE CURRENT YEAR. THEREFORE, WHEN HE SPOKE OF OIL LIFTING BEING DOWN TO 4 MILLION PLUS BARRELS PER DAY, HE MAY HAVE BEEN REFERRING TO THE AVERAGE FOR THE MONTH OF OCTOBER AND THE FINANCIAL CONSEQUENCES THAT WOULD FLOW FROM MAINTAINING THIS RATE OF LIFTINGS THROUGHOUT THE COMING YEAR. IF KHALATBARY'S ASSUMPTIONS WERE TO PROVE CORRECT, WE ESTIMATE REVENUE WOULD BE ABOUT \$17.35 BILLION NEXT IRANIAN YEAR. HELMS UNQUOTE INGERSOLL

SECRET

NNN

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TOSEC, MILITARY ASSISTANCE, GOVERNMENT REACTIONS, COST ESTIMATES, PRICES
Control Number: n/a
Copy: SINGLE
Draft Date: 16 DEC 1975
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MartinML
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975STATE295791
Document Source: CORE
Document Unique ID: 00
Drafter: O:PKJOHNSON
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750436-0937
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19751239/aaaabhxy.tel
Line Count: 133
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN SS
Original Classification: SECRET
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: SECRET
Previous Handling Restrictions: EXDIS
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: MartinML
Review Comment: n/a
Review Content Flags:
Review Date: 07 AUG 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <07 AUG 2003 by izenbei0>; APPROVED <26 NOV 2003 by MartinML>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: SHARP GOI REACTION TO RISING COSTS OF DEFENSE EQUIPMENT
TAGS: MASS, IR, US
To: SECRETARY
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006